



HF 2027 – Higher Education Students, Income Tax Credit (LSB 5071YH)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New
Requested by Representative Beth Wessel-Kroeschell

Description

House File 2027 creates a new refundable Iowa income tax credit equal to 25.0% of the federal American Opportunity Tax Credit (AOTC). The AOTC is a postsecondary education tax credit available for taxpayers with income below federally-specified levels.

This Bill is effective retroactive to January 1, 2014 (tax year 2014).

Background

The AOTC is a federal tax credit of up to \$2,500 per student for tuition, fees, and course materials paid for up to four years of postsecondary education. Higher education expenses for a year beyond the first four are not eligible for the AOTC. Up to 40.0% of the federal credit (\$1,000) is refundable. Phase-outs apply for taxpayers with modified federal adjusted gross income above \$80,000 (\$160,000 for married taxpayers filing jointly). Taxpayers with federal income above \$90,000 (single) and \$180,000 married are not eligible for the tax credit. The income limits are not indexed for inflation.

Under current law, the major federal tax benefits for higher education expenses include the AOTC, the Lifetime Learning Credit, and the above-the-line deduction for tuition and fees. A taxpayer cannot claim both the deduction and an education credit for the same student in the same year. Under current law, the AOTC is in general more generous for taxpayers than the other education tax benefits. The AOTC is set to sunset December 31, 2017, reverting to the less generous Hope Credit that existed prior to the creation of the AOTC in tax year 2009.

Assumptions

- Using data on AOTC eligible expenses reported on Federal Form 8863 available for taxpayers that filed electronic returns, it was determined that about 75.0% of federal education tax credit claims made by Iowa taxpayers were for the federal AOTC in tax year 2012.
- At 25.0% of the federal AOTC, the maximum Iowa credit will be \$625 per student.
- The average claim per tax return is projected to be \$508 in tax year 2014, with the number of tax returns qualifying for the new State credit assumed to equal 79,673.
- The Department of Revenue utilized their income tax micro-simulation model to estimate the tax revenue impact of the proposed deduction.
- The conversion of tax year model results to fiscal year General Fund revenue impacts was completed based on historical patterns of withholding, estimates, final returns, and refunds.
- The new credit is a refundable credit. Refundable tax credits do not impact the calculation of the local option income surtax for schools.

Fiscal Impact

The new refundable tax credit created in this Bill is projected to reduce net General Fund revenue by the following amounts:

- FY 2014 = \$ 0.3 million
- FY 2015 = \$41.2 million
- FY 2016 = \$39.9 million
- FY 2017 = \$39.2 million
- FY 2018 = \$37.7 million

The fiscal impact will cease after FY 2018 unless the federal government extends the federal AOTC past its current sunset date of December 31, 2017.

Source

Department of Revenue

/s/ Holly M. Lyons

March 24, 2014

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
